

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Basic Financial Statements

Year ended June 30, 2013

(With Independent Auditors' Report Thereon)

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Basic Financial Statements

Year ended June 30, 2013

Table of Contents

	Page
Independent Auditors' Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	3
Statement of Activities and Changes in Net Position	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Government Funds to the Statement of Activities and Changes in Net Position	8
Notes to the Basic Financial Statements	9



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

City Council
City of Torrance
Torrance, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund of the City of Torrance Public Financing Authority, a component unit of the City of Torrance, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Torrance Public Financing Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of the City of Torrance Public Financing Authority, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described further in note 6 to the financial statements, during the year ended June 30, 2013, the City implemented GASB Statements No. 63 and 65. Our opinion is not modified with respect to this matter.

As discussed in note 1, the accompanying financial statements present only the financial statements of the Public Financing Authority and do not purport to, and do not, present fairly the financial position of the City of Torrance, California, as of June 30, 2013, and the changes in its financial position, for the period ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the City of Torrance Public Financing Authority's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013 on our consideration of the City of Torrance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Torrance's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Irvine, California
December 18, 2013

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Statement of Net Position

June 30, 2013

(with comparative totals for prior year)

	<u>2013</u>	<u>2012</u>
Assets		
Current assets:		
Cash and cash equivalents with fiscal agents (note 2 and 3)	\$ 5,797,193	6,242,096
Total current assets	<u>5,797,193</u>	<u>6,242,096</u>
Noncurrent assets:		
Lease payment receivable (note 5)	59,160,000	60,695,000
Total noncurrent assets	<u>59,160,000</u>	<u>60,695,000</u>
Total assets	<u>64,957,193</u>	<u>66,937,096</u>
Liabilities		
Current liabilities (payable from current assets):		
Accrued interest payable	481,390	488,223
Accounts payable	—	62,870
Due to the City of Torrance	4,993	9,970
Long-term liabilities – portion due or payable within one year (note 4)	<u>1,585,000</u>	<u>1,535,000</u>
Total current liabilities	2,071,383	2,096,063
Noncurrent liabilities:		
Portion due or payable after one year (note 4)	<u>57,575,000</u>	<u>59,160,000</u>
Total noncurrent liabilities	<u>57,575,000</u>	<u>59,160,000</u>
Total liabilities	<u>59,646,383</u>	<u>61,256,063</u>
Net Position		
Restricted for debt service	3,338,688	3,334,532
Unrestricted	<u>1,972,122</u>	<u>2,346,501</u>
Total net position	<u>\$ 5,310,810</u>	<u>5,681,033</u>

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Statement of Activities and Changes in Net Position

Year ended June 30, 2013

(with comparative totals for prior year)

	<u>2013</u>	<u>2012</u>
Expenses:		
General government	\$ 374,379	282,562
Interest on long-term debt	<u>3,034,824</u>	<u>3,084,741</u>
Total expenses	<u>3,409,203</u>	<u>3,367,303</u>
Charges for services:		
Investment earnings	30,939	47,847
Leasing charges	<u>3,008,041</u>	<u>2,990,729</u>
Total charges for services	<u>3,038,980</u>	<u>3,038,576</u>
Change in net position	(370,223)	(328,727)
Net position – beginning of year	<u>5,681,033</u>	<u>6,009,760</u>
Net position – end of year	<u>\$ 5,310,810</u>	<u>5,681,033</u>

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Balance Sheet – Governmental Funds

June 30, 2013

(with comparative totals for prior year)

			<u>2013</u>	<u>2012</u>
	Debt Service Fund	Capital Project Fund	Total Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents with fiscal agents (notes 2 and 3)	\$ 4,580,810	1,216,383	5,797,193	6,242,096
Lease payments receivable (note 5)	59,160,000	—	59,160,000	60,695,000
Total assets	<u>\$ 63,740,810</u>	<u>1,216,383</u>	<u>64,957,193</u>	<u>66,937,096</u>
Liabilities and Fund Balances				
Liabilities:				
Unearned revenue (note 5)	\$ 59,160,000	—	59,160,000	60,695,000
Accounts payable	—	—	—	62,870
Due to other funds	—	4,993	4,993	9,970
Total liabilities	<u>59,160,000</u>	<u>4,993</u>	<u>59,164,993</u>	<u>60,767,840</u>
Fund balances:				
Restricted for:				
Debt service	4,580,810	—	4,580,810	4,583,487
Capital projects	—	1,211,390	1,211,390	1,585,769
Total fund balances	<u>4,580,810</u>	<u>1,211,390</u>	<u>5,792,200</u>	<u>6,169,256</u>
Total liabilities and fund balances	<u>\$ 63,740,810</u>	<u>1,216,383</u>	<u>64,957,193</u>	<u>66,937,096</u>

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position

June 30, 2013

Total fund balances for governmental funds	\$ 5,792,200
--	--------------

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and changes in net position. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.	(59,160,000)
--	--------------

Revenue reported as unearned revenue in the governmental funds and recognized in the statement of activities and changes in net position. These are included in the intergovernmental revenues in the government fund activity.	59,160,000
---	------------

Amounts reported for governmental activities in the statement of net position are different because interest payable on long-term debt does not require current financial resources:	
Accrued bond interest	(481,390)

Net position of governmental activities	\$ <u><u>5,310,810</u></u>
---	----------------------------

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)
Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2013

(with comparative totals for prior year)

			<u>2013</u>	<u>2012</u>
	Debt Service Fund	Capital Project Fund	Total Governmental Funds	Total Governmental Funds
Revenues:				
Use of money and property	\$ 4,573,980	—	4,573,980	4,518,576
Total revenues	<u>4,573,980</u>	<u>—</u>	<u>4,573,980</u>	<u>4,518,576</u>
Expenditures:				
Capital outlay	—	374,379	374,379	282,562
Debt service (note 4):				
Principal	1,535,000	—	1,535,000	1,480,000
Interest	<u>3,041,657</u>	<u>—</u>	<u>3,041,657</u>	<u>3,091,180</u>
Total expenditures	<u>4,576,657</u>	<u>374,379</u>	<u>4,951,036</u>	<u>4,853,742</u>
Excess (deficiency) of revenues over expenditures	<u>(2,677)</u>	<u>(374,379)</u>	<u>(377,056)</u>	<u>(335,166)</u>
Net change in fund balance	(2,677)	(374,379)	(377,056)	(335,166)
Fund balances, July 1, 2012	<u>4,583,487</u>	<u>1,585,769</u>	<u>6,169,256</u>	<u>6,504,422</u>
Fund balances, June 30, 2013	<u>\$ 4,580,810</u>	<u>1,211,390</u>	<u>5,792,200</u>	<u>6,169,256</u>

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities and Changes in Net Position

Year ended June 30, 2013

Net change in fund balances for governmental funds	\$ (377,056)
--	--------------

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and changes in net position. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.	1,535,000
--	-----------

Revenue reported as unearned revenue in the governmental funds and recognized in the statement of activities and changes in net position. These are included in the intergovernmental revenues in the government fund activity.	(1,535,000)
---	-------------

The change in net position reported for governmental activities in the statement of activities and changes in net position is different because the interest payable on long-term debt is only recognized in governmental funds when it is paid and not when it is earned.	<u>6,833</u>
--	--------------

Changes in net position of governmental activities	<u><u>\$ (370,223)</u></u>
--	----------------------------

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Reporting entity

Torrance Public Financing Authority (the Authority), was organized on December 1, 1997 for the purpose of assisting the City of Torrance (the City) in constructing and financing certain fire and police protection facilities and certain additional capital improvements (the Projects) within the City. The City has entered into noncancelable long-term leases with the Authority, which provide for lease payments in amounts sufficient to meet the annual debt service requirements on the bonds and certificates of participation issued by the Authority. In turn, the Projects are being leased back to the City pursuant to sublease agreements and options to purchase (Subleases). Upon payment of all base rental required under Subleases or exercise of the City's option to purchase the Projects, title to the Projects will vest to the City.

Since the Authority is financially dependent upon the City, it is considered to be a component unit of the City's reporting entity and has been included in the City's Comprehensive Annual Financial Report for the year ended June 30, 2013.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities and changes in net position) report information on all the nonfiduciary activities of the Authority. The Authority's activities are supported by lease payments from the City for the Projects the Authority has under sublease from the City. The government-wide financial statements are reported using the economic resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of activities and changes in net position demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) contributions that are restricted to meeting the debt or capital requirements of a particular function or segment.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in physical form (such as inventory) or that are legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by external legal requirements imposed by other governments, external resource providers, or creditors. Board imposed restrictions do not create restricted fund balance unless the legal document that initially authorized the revenue (associated with that portion of fund balance) also included language that specified the limited use for which the authorized revenues were to be expended.

Committed Fund Balance – this includes amounts that can only be used for specific purposes pursuant to the most binding constraint imposed by formal action of the Board. Those committed amounts cannot be used for any other purpose unless the Board rescinds or modifies the specified use by resolution. If the Board resolution that limits the use of the funds was separate from the action that initially created the revenues that form the basis for the fund balance, then the resultant fund balance is considered to be committed, not restricted. The Authority considers a resolution to constitute a formal action of the Board of Directors for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are intended to be used for specific purposes as indicated by the Board of Directors.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the Authority's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Board.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

The funds designated as major funds are determined by a mathematic calculation consistent with GASB 34.

The Authority reports the following as major governmental funds:

The **Debt Service Fund** is used to account for the accumulation of the Authority's resources for, and the payment of, general long-term debt principal, interest, and related costs.

The **Capital Projects Fund** is used to account for the Authority's financial resources to be used for the acquisition or construction of major capital facilities.

(c) Budgetary Principles

Annual budgets are not required for the Authority's Capital Project and Debt Service funds because effective budgetary control is achieved through alternative means, such as project-by-project analysis and provisions of the bond indenture.

(d) Cash and Investments

Cash and investments of the Authority are pooled with that of the City and are invested by the City Treasurer. The Authority's investment policy guidelines provide for pooling its cash and investments with the City Treasurer and allow for the same types of investments as the City. State statutes authorize the Authority to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, municipal bonds and the State Treasurer's Investment Pool.

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Interest is allocated to the Authority based on its proportional share of the pooled cash and investments. The Authority's share of pooled cash and investments with the City Treasurer is carried at fair value.

Investments for the Authority are reported at fair value. The State Treasurer's Investments Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

(e) Cash and Investments with Fiscal Agent

Cash and investments with fiscal agents represents amounts held by a trustee bank that are restricted for use in either acquiring certain assets or servicing long-term debt of the Authority as required by the bond indentures. Investments in guaranteed investment contracts are carried at fair value based on net realizable value. Mutual funds are carried at fair value based on the fund's share price.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

(f) Long-Term Liabilities

In the Government-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of the debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

(g) Fund Balance

In the fund financial statements, reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use.

(h) Comparative data

The Torrance Public Financing Authority Statement of Net Position, Statement of Activities and Changes in Net Position, Balance Sheet – Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds shows data for the fiscal year ended June 30, 2012 for comparative purposes only.

(2) Cash and Investments

Cash and investments at June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments held by fiscal agent	\$ 5,797,193
Total cash and investments	<u>\$ 5,797,193</u>

Cash and investments at June 30, 2013 consist of the following:

Cash	\$ 18,657
Investments	<u>5,778,536</u>
Total cash and investments	<u>\$ 5,797,193</u>

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

Investments Authorized by Debt Agreements

Investments of debt proceeds held by fiscal agent are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The table below identifies the investment types that are authorized for investments held by fiscal agent. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized <u>Investment Type</u>	Maximum <u>Maturity</u>	Maximum Percentage <u>Allowed</u>	Maximum Investment <u>in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None
Local Agency Investment Fund	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the Authority's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City is provided by disclosures in the notes to the basic financial statements of the City that shows the distribution of the City's investments by maturity.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

Information about the sensitivity of fair values of the Authority's investments held by fiscal agent to market interest rate fluctuations is provided by the following table that shows the distribution of these investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			
	<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
Held by fiscal agent:				
Money market funds	\$ 5,228,597	5,228,597	-	-
Investment contracts	<u>549,939</u>	<u>-</u>	<u>-</u>	<u>549,939</u>
Total	<u>\$ 5,778,536</u>	<u>5,228,597</u>	<u>-</u>	<u>549,939</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>AA+</u>	<u>Not Rated</u>
Held by fiscal agent:						
Money market funds	\$ 5,228,597	A	-	5,228,597	-	-
Investment contracts	<u>549,939</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>549,939</u>
Total	<u>\$ 5,778,536</u>		<u>-</u>	<u>5,228,597</u>	<u>-</u>	<u>549,939</u>

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and investment pools) that represent 5% or more of total investments for the entire entity (or for each separate major fund or for non-major funds in the aggregate) are as follows.

At June 30, 2013, \$549,939 of the investment held by fiscal agent reported in the Debt Service Fund are held in the form of a nonnegotiable unrated investment contract issued by AIG Matched Funding Corporation that matures on November 28, 2028. The remaining investments held by the bond trustee are split between the Debt Service Fund, \$4,012,214, and the Capital Project Fund, \$1,216,383, and are held in a money market account.

Custodial Credit Risk

The Authority does not have significant separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Authority does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

For the investments held by fiscal agent, the fiscal agent, at the direction of the City Treasurer, selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

(3) Restricted Assets

Certain proceeds of the Authority's fund revenue bonds, as well as certain resources set aside for repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. These assets are primarily required to be held in reserve as security for bondholders with respect to debt service payments.

The 1998 Certificates of Participation require that a reserve fund be maintained at the lesser of: 10% of the issue price of the Certificates then outstanding, excluding interest; or 125% of average annual Lease Payments coming due and payable. At June 30, 2013, the requirement is \$549,937. The amount on reserve is \$568,596.

The 2004 A and B Certificates of Participation require that a reserve fund be maintained at the lesser of: 10% of the original Principal Amount of the Lease Payments; 125% of average annual Lease Payments; or maximum annual Lease Payments. At June 30, 2013, the requirement for Series 2004A is \$1,343,334 and the requirement for Series 2004B is \$1,433,878, a reserve requirement totaling \$2,777,212. The amount on reserve is \$2,754,195.

The 2009 Certificates of Participation require that a reserve fund be maintained at the lesser of: 10% of the original Principal Amount of the Lease Payments; 125% of average annual Lease Payments; or maximum annual Lease Payments. At June 30, 2013, the requirement for Series 2009 is \$1,258,019. The amount on reserve is \$1,258,019.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

Special Accounts

The bond indentures require the Authority to maintain a number of specific accounts (stipulated in the bond indenture as funds), which are primarily used to fund the construction and make required periodic payments of principal and interest.

- Construction and Acquisition Accounts – Proceeds from the sale of the certificates of participation were deposited into this account to be utilized for costs incurred for infrastructure projects. This account is included in the Authority's Capital Projects Fund.
- Lease Payment Accounts – The lease agreement requires that the Lease Payment Accounts have on hand funds available for the payment of the principal, interest, and prepayment payments. This account is to be used solely for this purpose. This account is included in the Authority's Debt Service Fund.
- Reserve Accounts – Monies in the Reserve Accounts may be used for payment of principal and interest when the lease payment account is insufficient to meet the required payments or when all remaining principal and interest on the certificates can be paid in full. This account is included in the Authority's Debt Service Fund.

(4) Long-Term Liabilities

(a) Changes in Long-Term Liabilities

Activities in the long-term obligations for the year ended June 30, 2013 are as follows:

	1998 Certificate of Participation	2004A Certificate of Participation	2004B Certificate of Participation	2009 Certificate of Participation	Total Long Term Liabilities
Balance at June 30, 2012	\$ 6,300,000	\$ 12,225,000	\$ 23,915,000	\$ 18,255,000	\$ 60,695,000
Principal, satisfied or matured	(255,000)	(955,000)	-	(325,000)	(1,535,000)
Balance at June 30, 2013	6,045,000	11,270,000	23,915,000	17,930,000	59,160,000
Principal, maturing in one year	(260,000)	(990,000)	-	(335,000)	(1,585,000)
Amounts due in more than one year	<u>\$ 5,785,000</u>	<u>\$ 10,280,000</u>	<u>\$ 23,915,000</u>	<u>\$ 17,595,000</u>	<u>\$ 57,575,000</u>

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

(b) 1998 Refunding Certificates of Participation

In 1991, the City of Torrance issued \$5,950,000 of certificates of participation (the 1991 Police COPS) to refinance certain lease revenue bonds issued by the Torrance Civic Center Authority to construct the City's police facilities and an adjacent parking area. The outstanding 1991 Police COPS had an average interest rate of 6.75% and a final maturity date of July 1, 2012. The City also issued \$3,520,000 of certificates of participation for improvements to a fire station in 1991 (1991 Fire COPS) with an outstanding balance that had an average rate of 6.29%. In December 1998, the Authority issued refunding certificates of participation to refund the 1991 Police COPS and 1991 Fire COPS for substantial interest rate savings. In addition, given the low interest rates at the time and significant value of the pledged asset (the Police Building valued at \$16,230,000), the City had raised additional funds for capital projects by extending the term of the lease payments to a 30-year certificate of participation with an average interest rate of 5.07%. The City generated approximately \$2,900,000 for capital projects. As a result, the 1991 Police and Fire COPS are considered defeased, and the related liability has been removed from the books.

The refunding certificates of participation for \$10,300,000 are dated December 1, 1998. The principal matures December 1 of each year through 2028 at variable amounts ranging from \$160,000 to \$590,000. Interest is payable semiannually on June 1 and December 1, with interest rates ranging from 4.00% to 4.75% and \$6,045,000 remains outstanding as of June 30, 2013.

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total
Year ending June 30:			
2014	\$ 260,000	\$ 280,630	\$ 540,630
2015	275,000	268,188	543,188
2016	285,000	254,956	539,956
2017	300,000	241,062	541,062
2018	315,000	226,456	541,456
2019 to 2023	1,805,000	888,131	2,693,131
2024 to 2028	2,280,000	405,413	2,685,413
2029	525,000	12,469	537,469
	<u>\$ 6,045,000</u>	<u>\$ 2,577,305</u>	<u>\$ 8,622,305</u>

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

(c) 2004 A and B Refunding Certificates of Participation

In 2004, the Authority issued \$43,130,000 of refunding certificates of participation, series A and series B. A portion of the proceeds of the Series 2004A certificates were used to refund, on an advance basis, a portion of the 1995 certificates of participation issued by the Torrance Improvement Corporation to construct certain maintenance and entertainment facilities within the City. Proceeds from the Series 2004B certificates was used to refund on a current basis the portion of the 1995 certificates that was not advanced refunded with the proceeds from the Series 2004A. The debt proceeds and the 1995 certificates of participation reserves of \$3,470,479 were deposited in an irrevocable trust with an escrow agent to redeem the 1995 certificates of participation on April 1, 2005. As a result the 1995 certificates of participation are considered defeased, and the related liability has been removed from the books.

2004 A Refunding Certificates of Participation

The refunding certificates of participation for series A in the amount of \$19,215,000 are dated October 13, 2004. The principal matures June 1 of each year through 2034 at variable amounts ranging from \$315,000 to \$1,005,000. Interest is payable semiannually on June 1 and December 1, with interest rates ranging from 2% to 5% and \$11,270,000 remains outstanding as of June 30, 2013. Certificates maturing on or before June 1, 2015 are subject to optional prepayment, in whole or in part, on any business day on or after June 1, 2014 at the stated prepayment price.

Annual debt service requirements are as follows:

	Principal	Interest	Total
Year ending June 30:			
2014	\$ 990,000	\$ 554,237	\$ 1,544,237
2015	315,000	504,737	819,737
2016	330,000	493,712	823,712
2017	345,000	481,750	826,750
2018	360,000	464,500	824,500
2019 to 2023	2,090,000	2,033,750	4,123,750
2024 to 2028	2,660,000	1,457,250	4,117,250
2029 to 2033	3,395,000	722,250	4,117,250
2034	785,000	39,250	824,250
	<u>\$ 11,270,000</u>	<u>\$ 6,751,436</u>	<u>\$ 18,021,436</u>

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

2004 B Refunding Certificates of Participation

The refunding certificates of participation for series B in the amount of \$23,915,000 are dated January 5, 2005. The principal matures June 1 commencing in 2015 and is due June 1 each year after until 2034 at variable amounts ranging from \$720,000 to \$1,855,000. Interest is payable semiannually on June 1 and December 1, with interest rates ranging from 5.00% to 5.25% and \$23,915,000 remains outstanding as of June 30, 2013. Certificates are subject to an optional prepayment, in whole or in part, on any business day on or after June 1, 2014 at the stated prepayment price.

Annual debt service requirements are as follows:

	Principal	Interest	Total
Year ending June 30:			
2014	\$ -	\$ 1,232,962	\$ 1,232,962
2015	720,000	1,232,962	1,952,962
2016	755,000	1,196,962	1,951,962
2017	790,000	1,159,213	1,949,213
2018	830,000	1,119,713	1,949,713
2019 to 2023	4,820,000	4,932,313	9,752,313
2024 to 2028	6,175,000	3,581,650	9,756,650
2029 to 2033	7,970,000	1,785,000	9,755,000
2034	1,855,000	97,388	1,952,388
	<u>\$ 23,915,000</u>	<u>\$ 16,338,163</u>	<u>\$ 40,253,163</u>

(d) 2009 Certificates of Participation

In 2009, the Torrance Public Financing Authority issued certificates of participation dated December 1, 2009 in the amount of \$18,880,000. A portion of the proceeds of the Certificates was used to finance the acquisition price of \$17,650,000 for approximately 15 acres of real property located at 465 Crenshaw Boulevard in the City. The City expects to use the property for a regional transit center and other City uses.

The principal matures September 1 of each year through 2039 at variable amounts ranging from \$310,000 to \$1,220,000. Interest is payable on March 1 and September 1 with interest rates ranging from 2.0% to 4.5% and \$17,930,000 remains outstanding as of June 30, 2013.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

Annual debt service requirements are as follows:

	Principal	Interest	Total
Year ending June 30:			
2014	\$ 335,000	\$ 920,694	\$ 1,255,694
2015	345,000	909,631	1,254,631
2016	360,000	896,394	1,256,394
2017	375,000	881,694	1,256,694
2018	390,000	866,393	1,256,393
2019 to 2023	2,225,000	4,055,591	6,280,591
2024 to 2028	2,870,000	3,408,500	6,278,500
2029 to 2033	3,735,000	2,538,206	6,273,206
2034 to 2038	4,920,000	1,359,050	6,279,050
2039 to 2040	2,375,000	132,412	2,507,412
	<u>\$ 17,930,000</u>	<u>\$ 15,968,565</u>	<u>\$ 33,898,565</u>

(5) Capital Leases

The Authority has entered into sublease agreements with the City for various assets. Under each agreement, the resulting sublease meets all requirements for accounting for the agreement as a capital lease for financial statement purposes. As such, the assets have been transferred to the City.

The sublease agreements are summarized as follows:

(a) Fire Station Sublease

The original sublease of the fire station commenced on September 1, 1991. Due to the 1998 Refunding Certificates of Participation, a new sublease was entered into on December 1, 1998 and is scheduled to run to December 1, 2028. Under the current sublease, the City is required to make semiannual payments sufficient in both time and amount to pay, when due, the principal and interest with respect to the refunding certificates. The City must deposit payments with the trustee one day prior to each December 1 and June 1.

(b) Police Facility Sublease

The original sublease of the police facility commenced on November 1, 1991. Due to the 1998 Refunding Certificates of Participation, the new sublease was entered into on December 1, 1998 and is scheduled to run to December 1, 2028. Under the current sublease, the City is required to make semiannual payments sufficient in both time and amount to pay, when due, the principal and interest with respect to the refunding certificates. The City must deposit payments with the trustee one day prior to each December 1 and June 1.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Notes to the Basic Financial Statements

Year ended June 30, 2013

(c) *Property Sublease*

The property sublease of the Cable Communications Building, the General Aviation Center, and Fire Stations #2, 3, 4, 5 and 6 commenced on October 13, 2004. According to the 2004 Refunding Certificates of Participation, the sublease is scheduled to run to June 1, 2034. Under the sublease, the City is required to make semiannual payments sufficient in both time and amount to pay, when due, the principal and interest with respect to the refunding certificates. The City must deposit payments with the trustee each May 15 and November 15.

Lease payments may be reduced from time to time by rental credit provided for in the lease agreement and related bond indenture.

Since the lease payment receivables do not represent currently available spendable resources in the fund financial statements, they are offset in the balance sheet in an equal amount under the financial statement caption entitled "Unearned revenue." In the government-wide financial statements, the lease receivable of \$59,160,000 is shown as a noncurrent asset on the statement of net position as of June 30, 2013.

(6) *Accounting Change*

The accompanying financial statements reflect the implementation of GASB Statements Nos. 63 and 65. Significant impacts of GASB Statement No. 63 include changing the title of the statement of net assets to the statement of net position and reformatting the statement of net position to add separate sections for deferred inflows of resources and deferred outflows of resources. Significant impacts of GASB Statement No. 65 include reclassifying as deferred inflows of resources and deferred outflows of resources certain balances that were previously reported as assets and liabilities. GASB Statement No. 65 also required that debt issuances costs be reported as expenses when incurred. The retroactive effects of implementing this change in reporting debt issuance costs resulted in no restatement of the beginning net position of the Torrance Public Financing Authority financial statements.